Fruitland Special Service District

Financial Statement
With Other Government Reports

For the years ending December 31, 2006 and 2005

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TABLE OF CONTENTS

Independent Auditors' Report

To the Board of Directors
Fruitland Special Service District
Fruitland, Utah

We have audited the accompanying financial statements of the proprietary fund type activity of the Fruitland Special Service District as of and for the years ended December 31, 2006 and 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the proprietary fund type activity of the District as of December 31, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2007 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Aycock, Miles & Associates, CPAs

June 25, 2007

Management's Discussion and Analysis

As management of the Fruitland Special Service District (the District), we offer readers of the District's financial statements this narrative overview and analysis of financial activities of the District for the fiscal year ended December 31, 2006.

Financial Highlights

- Assets exceeded liabilities at closest year-end: $3,011,934 - $1,168,225 = $1,843,709. Of this amount, $462,032 is unrestricted and available to meet the District's ongoing obligations. The unrestricted net asset balance of $444,032 is 276% of the 2006 operating expenses.
- Unrestricted cash increased $68,046.
- Restricted cash increased $106,456.
- Net assets increased $206,568.
- Unrestricted net assets increased $77,007.
- Long-term and current portion of long-term debt decreased $67,000.
- The District's total assets of $3,011,934 were 9.9% unrestricted cash and accounts receivable.
- Current assets increased $81,327 or 35% because a $81,000 loan payment was not made until the first week of the 2007 year. If the loan payment had been made in an annual manner, current assets would have been similar to last year.
- Current liabilities increased $85,320 or 97%, because of the large amount of loan payments that are current.
- Current assets less current liabilities decreased to $142,431 in 2006 down from $146,424 in 2005.
- Fixed assets net of accumulated depreciation decreased $43,895 or 2%.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise two components: 1) fund financial statements for a proprietary fund type (business-type activity), and 2) notes to the financial statements.

Fund financial statements–A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. This District is a proprietary fund only.

Proprietary funds–There are two types of proprietary funds: enterprise and internal service funds. The District maintains only one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its operation of the Fruitland Special Service District.

Proprietary funds provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the operation of the District. This fund is the District's only major fund. Because the District's only reporting unit is a proprietary fund and the reporting format is similar to government-wide reporting the presentation of government-wide financials statements are not required and are not necessary.

The basic proprietary fund financial statements can be found on the pages listed in the table of contents.

Notes to the financial statements–The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements. The notes to the financial statements can be found on the pages listed in the table of contents.

Financial Analysis of the Proprietary Fund

Net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by $1,843,709 at the close of the most recent fiscal year.

The District's net assets are comprised of three components:

- Unrestricted net assets are 25% of the total. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

- Restricted net assets are 12% of the total. Restricted net assets comprise balances that have been restricted to legislation, debt covenants, and other legal requirements.

- Capital assets (e.g., machinery, equipment, etc.) comprised 63% of total net assets, less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate any liabilities.

Net Assets	2006	2005
Current assets	$ 297,842	$ 234,515
Restricted cash & other assets	391,658	285,202
Net capital assets	2,322,435	2,366,329
Total assets	3,011,935	2,886,046
Current liabilities	173,410	88,090
Long-term liabilities	994,814	1,160,814
Total liabilities	1,168,224	1,248,904
Net assets:		
Invested in capital assets, net of related debt	1,161,621	1,140,191
Restricted	238,057	131,601
Unrestricted	444,032	365,350
Total net assets	$ 1,843,710	$ 1,637,142

The District's net assets increased by $206,568 in the most recent fiscal year. Key elements of this increase are as follows:

Change in Net Assets	2006	2005
Revenues:		
Water sales	$ 151,763	$ 146,101
Connection & impact fees	191,850	82,550
Late fees & other items	5,425	4,703
Interest earnings	18,313	8,383
Total revenues	367,351	241,737
Expenses:		
Wages & benefits	19,502	21,099
Operations & maintenance	54,916	42,833
Interest	2,033	2,133
Depreciation	84,332	85,853
Total expenses	160,783	151,918
Increase (decrease) in net assets	$ 206,568	$ 89,819

The District's water sales increased somewhat because of growth. New developments in the area lead to a large increase in impact fees. Operations expense increased 28% from the prior year.

The available cash resources of the District increased more than normal because loan payments of $81,000 were not made until the year 2007. Without a significant change in receivables and payables and the delay in loan payments, unrestricted cash increased $86,404. Restricted cash also increased $106,456. The District's ratio of current assets compared to current liabilities and total liabilities both improved during the year.

Fund Budgetary Highlights

	Original	Amended	Actual
Revenues	$ 246,380	$ 246,380	$ 367,351
Expenses	(216,785)	(216,785)	(160,783)
Net Income	$ 29,595	$ 29,595	$ 206,568

Capital Asset and Debt Administration

Capital assets–The District increased its investment in capital assets by $40,438 for the most recent year ending December 31, 2006. Accumulated depreciation increased $84,853. Therefore, the net book value of investment in capital assets decreased $43,894.

Net Capital Assets	2006	2005
Land	$ 2,000	$ 2,000
Water system	2,278,143	2,361,524
Buildings	2,259	2,505
Equipment	40,032	300
Total (net of depreciation)	$ 2,322,435	$ 2,366,329

Long-term debt–The District's long-term liability activity during the year is as follows:

Long-term Debt	2005	Increase	Decrease	2006	Current Portion
Revenue Bonds	$ 1,227,814	$ -	$ (67,000)	$ 1,160,814	$ 166,000

Economic Factors and Next Year's Budgets and Rates

- The District has 2007 year budgeted total revenues for $272,200 and total expenses for $256,200. Budgeted revenues are about 29% less than 2006's actual revenues, the difference being that impact fee income isn't expected to be as large in 2007 as it was in 2006. Budgeted 2007 expenses are about 26% more than 2006's actual expenses.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Fruitland Special Service District, Attn: Cindy Roberts, P.O. Box 1, Fruitland, Utah, 84027, (435) 548-2399.

Fruitland Special Service District

Statement of Net Assets--Proprietary Fund Type

December 31, 2006 and 2005

	2006	2005
ASSETS		
Current Assets:		
Cash (Note 2)	$ 73,431	$ 13,771
Savings (Note 2)	206,485	198,099
Prepaid expenses	432	341
Accounts receivable (net of allowance)	17,494	22,304
Total Current Assets	297,842	234,515
Fixed Assets:		
Land	2,000	2,000
Water system	3,231,055	3,231,055
Building & improvements	29,392	29,392
Equipment	46,298	5,860
Accumulated depreciation	(986,310)	(901,977)
Total Fixed Assets	2,322,435	2,366,329
Other Assets:		
Water rights and easements	153,601	153,601
Restricted cash (Note 6)	238,057	131,601
Total Other Assets	391,658	285,202
Total Assets	$ 3,011,934	$ 2,886,046
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 489	$ 14,447
Accrued expenses	2,600	2,806
Customer advance payments	4,322	3,838
Current portion of long-term debt	166,000	67,000
Total Current Liabilities	173,410	88,090
Long-Term Debt:		
Long-term debt (Note 3)	994,814	1,160,814
Total Long Term Debt	994,814	1,160,814
Total Liabilities	1,168,225	1,248,905
Net Assets:		
Invested in capital assets, net of related debt	1,161,621	1,138,515
Restricted (impact fees & bond reserves, Note 6)	238,057	131,601
Unrestricted	444,032	367,025
Total Net Assets	1,843,709	1,637,141
Total Liabilities & Net Assets	$ 3,011,934	$ 2,886,046

See accompanying notes.

Fruitland Special Service District

Statement of Revenues, Expenses, and in Changes in Fund Assets–Proprietary Fund Type

For the years ending December 31, 2006 and 2005

	2006	2005
Operating Revenues:		
Water sales	$ 151,763	$ 146,101
Connection fees	11,850	13,300
Total Operating Revenues	163,613	159,401
Operating Expenses:		
Wages	19,502	21,099
Operation and maintenance expense	24,693	19,590
Contract labor	2,137	2,105
Vehicle repair and maintenance	-	-
Insurance	3,772	3,600
Professional fees	10,662	5,564
Office supplies and expenses	4,260	3,353
Utilities	3,181	2,299
Travel and conferences	3,306	2,982
Water sample	985	783
Depreciation	84,332	85,853
Miscellaneous	1,920	2,557
Interest expense	2,033	2,133
Total Operating Expenses	160,783	151,917
Income/(Loss) from Operations	2,830	7,484
Non-Operating Revenue/(Expenses):		
Interest income	18,313	8,383
Impact fees	180,000	69,250
Finance charges	738	712
Late fees	2,680	2,624
Rent	1,200	1,200
Miscellaneous income	807	167
Total Non-Operating Revenues/(Expenses):	203,738	82,335
Change in Net Assets	206,568	89,819
Net Assets, Beginning of Year	1,637,141	1,547,322
Net Assets, End of Year	$ 1,843,709	$ 1,637,141

See accompanying notes.

Fruitland Special Service District

Statement of Cash Flows–Proprietary Fund Type

For the years ending December 31, 2006 and 2005

		2006		2005
Cash Flows From Operating Activities:				
Cash received from customer services	$	157,057	$	141,388
Cash received for customer connections		11,850		13,300
Cash payments to employees for services		(19,624)		(21,186)
Cash payments to suppliers for goods and services		(68,965)		(43,586)
Cash paid for interest expense		(2,117)		(2,216)
Net cash provided by operating activities		78,201		87,700
Cash Flows From Investing Activities:				
Water system		-		(14,000)
Equipment		(40,438)		-
Interest income		18,313		8,383
Net Investing Cash Flow		(22,125)		(5,617)
Cash Flows From Non Capital Financing Activities:				
Impact fees		180,000		69,250
Finance charges & late fees		3,418		3,336
Rent		1,200		1,200
Miscellaneous		807		167
Net Non-financing Cash Flow		185,426		73,953
Cash Flows From Capital Financing Activities:				
Revenue Bond Payments		(67,000)		(4,000)
Net Financing Cash Flow		(67,000)		(4,000)
Total Cash Increase/ (Decrease)		174,502		152,036
Beginning Cash Balance		343,471		191,435
Ending Cash Balance	$	517,973	$	343,471
Reconciliation of Operating Income to Operating Cash Flow:				
Operating Income	$	2,830	$	7,484
Reconciling items:				
(Increase)/decrease in accounts receivable		4,810		(5,994)
(Increase)/decrease in prepaid expenses		(91)		(298)
Increase/(decrease) in accounts payable		(13,958)		(456)
Increase/(decrease) in accrued expenses		(206)		(170)
Increase/(decrease) in deferred revenue		484		1,281
Depreciation		84,332		85,853
Net Operating Cash Flow	$	78,201	$	87,700

See accompanying notes.

Fruitland Special Service District
Notes to Financial Statements
December 31, 2006

NOTE 1 Summary of Significant Accounting Policies

Reporting Entity–The accounting policies of Fruitland Special Service District conform to generally accepted accounting principles as applicable to governmental units. The District has no component units and is not a component unit of another entity according to the standards set forth by GASB No. 14. The following is a summary of the more significant policies.

Government-Wide and Fund Financial Statements–The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent of fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privilege provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation–The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports only one proprietary fund for which presentation is similar to the government-wide format. Therefore, only proprietary enterprise fund format will be reported in the financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District are operating receipts from the sale of water and water hook-ups.

Application of Accounting Pronouncements–Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Deposits and Investments–The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables–All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

Property Taxes–The property tax revenue of the District is collected and distributed by Duchesne County. Utah statutes establish the process by which taxes are levied and collected. The County Assessor is required to assess real property as of January 1 and complete the tax rolls by May 15. By July 21, the County Auditor is to mail assessed value and tax notices to property owners. A taxpayer may then petition the County Board of Equalization between August 1 and August 15 for a revision of the assessed value. The County Auditor makes approved changes in assessed value by November 1 and on this same date the County Auditor is to deliver the completed assessment rolls to the County Treasurer. Tax notices are mailed with a due date of November 30. The tax assessments are considered past due January 15 after the respective tax billing date, at which time the applicable property is subject to lien, and penalties and interest are assessed. *Currently, the District does not assess a property tax.*

Utah State legislation requires motor vehicles be subject to an age based fee that is due each time a vehicle is registered. The age based fee is for passenger type vehicles and ranges from $10 to $150 based on the age of the vehicle. The revenues collected in each County from motor vehicle fees is distributed by the County to each taxing entity in which the property is located in the same proportion in which revenue collected from ad valorem real property tax is distributed. The District recognizes motor vehicle fees as property tax revenue when collected by the County. *Currently, the District does not assess a property tax.*

Inventories and Prepaid Items–All inventories are valued at cost using the first-in/first-out method. Inventories of proprietary funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets–At times, the District may have funds set aside that are legally restricted or their use is limited by certain contracts. Restricted funds will be expended first when possible.

Capital Assets–Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual significant cost and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.
Property, plant, and equipment of the primary government, as well as the component units if any, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Water system	40-50
Buildings	15-40
Equipment	7-8
Vehicles	5
Office equipment	5

Compensated Absences–The District's policy is to permit employees to accumulate earned but unused personal leave and sick leave benefits. There is no liability for unpaid accumulated sick leave since it is the District's policy to record the cost of sick leave only when it is used. Vacation time is accrued when incurred and reported as a liability at that time.

Long-term Obligations–In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity–In the fund financial statements, proprietary funds report equity in a manner similar to the government-wide statements.

Use of Estimates–The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgetary Data–Budgets are presented on the modified accrual basis of accounting for all governmental funds of the District. During November and December of each year, the District prepares the budget. The budget shall be in effect subject to later amendment and shall be available for public inspection. Public advertising and public budget hearings are conducted to comply with Utah State law. By December 15, the budget is legally and formally adopted by the Board. The Board may increase (amend) the total budget by repeating the public advertising and public budget hearings.

NOTE 2 Cash & Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The District follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of District funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

Summary of Deposits and Investments

Reconciliation to the Balance Sheet

Balance Sheet		Deposits & Investments	
Cash	$ 73,431	Checking & savings	$ 73,431
Savings	206,485	Utah Public Treasurer Pool	444,542
Restricted cash	238,057	Cash	-
Totals	$ 517,973		$ 517,973

Deposits

Custodial Credit Risk—Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. As of December 31, 2006, $0 of the District's bank balances of $72,574 (carrying balance of $73,431) was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's

Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United State Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses (net of administration fees), of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2006, the District had the following investments and maturities:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	444,542	444,542	-	-	-

Interest Rate Risk—Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years. For funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, Rule 2 of the Money Management Council does not allow the dollar-weighted average maturity of fixed income securities to exceed ten years.

Credit Risk— Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

At December 31, 2006, the District had the following investments and quality ratings:

Investment Type	Fair Value	Quality Rating AAA	AA	A	Unrated
State of Utah Public Treasurer's Investment Fund	444,542	-	-	-	444,542

Concentration of Credit Risk—Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

NOTE 3 Long-term Debt

The Fruitland Special Service District has the following long-term obligations:

Loan A: State of Utah Department of Water Resource Revenue Bond 1989A, payments of $21,000, 0% interest for 25 years, matures year 2015, face amount of $750,000.

Loan B: State of Utah Department of Water Resource Revenue Bonds 1989B & C, payments average $19,000, 0% interest for 25 years, matures year 2015, face amount of $680,000.

Loan C: State of Utah Parity Water Revenue Bond 1997A, payments of $4-6,000, 2.5% interest for 25 years, matures year 2023, face amount of $120,000.

Loan D: State of Utah Parity Water Revenue Bond 1997B, payments of $8-10,000 and later $80,000, 0% interest for 20 years, matures year 2019, face amount of $400,000.

Long-term Debt	2005	Increase	Decrease	2006	Current Portion
Loan A	$ 443,000	$ -	$ (28,000)	$ 415,000	$ 74,000
Loan B	372,000	-	(25,000)	347,000	68,000
Loan C	84,662	-	(4,000)	80,662	4,000
Loan D	328,152	-	(10,000)	318,152	20,000
	$ 1,227,814	$ -	$ (67,000)	$ 1,160,814	$ 166,000

Schedule of Payments	Principal	Interest	Total
2007	166,000	2,017	168,017
2008	85,000	1,917	86,917
2009	86,000	1,817	87,817
2010	86,000	1,692	87,692
2011	86,000	1,567	87,567
2012-2016	411,000	5,958	416,958
2017-2021	236,152	2,758	238,910
2022-2026	4,662	117	4,779
	$ 1,160,814	$ 17,843	$ 1,178,657

NOTE 4 Fixed Asset Activity

Fixed Asset Activity	2005	Increase	Decrease	2006
Land (not depreciated)	$ 2,000	$ -	$ -	$ 2,000
Water system	3,231,055	-	-	3,231,055
Building & improvements	29,392	-	-	29,392
Equipment	5,860	40,438	-	46,298
Sub-total	3,268,307	40,438	-	3,308,745
Accumulated depreciation	(901,978)	(84,332)	-	(986,310)
Fixed assets net of depreciation	$ 2,366,329	$ (43,894)	$ -	$ 2,322,435

Note 5 Exposures to Risks of Loss

The District minimizes its exposure to risks of loss through the purchase of commercial insurance. The District considers uninsured exposure to risks of loss as immaterial.

Note 6 Restricted Net Assets and Restricted Cash

The District has cash funds held in reserve or restricted for three different requirements at year-end. First, the District is required to make reserve payments into a Reserve and Emergency Repairs and Replacement Fund with interest accrual of at least 5% until there is $88,000 accumulated. As per the estimated payment schedule, this repair and replacement fund has $72,057. Second, annual amounts are accumulated in a sinking fund to ensure annual bond payments. This sinking fund has $166,000 ($81,000 due December 31, 2006 (late) plus $85,000 for year 2007). Lastly, impact fee reserves (amounts collected for purpose of capital outlay upon system connection) are recorded separately which amount to $0. Impact fees reserves were completely expended in the year 2006. These three reserve amounts total $238,057.

Note 7 Accounts Receivable

Balances	2006	2005
Accounts receivable	$ 14,710	$ 13,167
Hookup installment receivable	4,298	9,518
Less allowance for doubtful accounts	(1,514)	(381)
Net accounts receivable	$ 17,494	$ 22,304

Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Fruitland Special Service District

We have audited the financial statements of Fruitland Special Service District as of and for the year ended December 31, 2006, and have issued our report thereon dated June 25, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether Fruitland Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Fruitland Special Service District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information and use of the audit committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aycock, Miles & Associates, CPAs

June 25, 2007

State Compliance Report

Board of Directors
Fruitland Special Service District

We have audited the general purpose financial statements of Fruitland Special Service District, Utah, for the year ended December 31, 2006 and have issued our report thereon dated June 25, 2007. Our audit included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt
Cash Management
Purchasing Requirements
Budgetary Compliance
Property Tax
Other Compliance Requirements

The District received no major or nonmajor assistance from the State of Utah.

The management of Fruitland Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the general requirements referred to above and no instances of noncompliance applicable major grant specific requirements.

In our opinion, the Fruitland Special Service District, Altamont, Utah, complied, in all material respects, with the general compliance requirements identified above and major grant specific requirements for the year ended December 31, 2006.

Aycock, Miles & Associates, CPAs

June 25, 2007

Fruitland Special Service District

Utah State Compliance Report Schedule

December 31, 2006

WATER IMPACT FEES

On March 11, 1998, Fruitland Special Service District adopted a water impact fee ordinance to encourage and expedite the orderly growth and development of the District. The amount of the impact fee is based upon the cost incurred on the system.

The District is required to place these impact fees into a separate interest bearing account and may expend these funds only on capital improvements, retiring debt for a system or other expenditures allowed by law. These funds must be expended within six years from receipt or refunded with interest to the payer.

Fiscal Year	Impact Fee	Interest Earned	Project	Amount Expended	Debt Service on System	Balance
1999	$ 106,419	$ -	waterline expansion	$ 44,912	$ 44,000	$ 17,507
2000	28,000	-	waterline expansion	7,974	52,000	(31,974)
2001	52,000	11,911	waterline expansion	104,153	54,794	(95,036)
2002	28,000	5,157	none	-	67,700	(34,543)
2003	36,000	3,737	waterline expansion	354,645	67,600	(382,508)
2004	64,000	1,639	waterline expansion	47,654	126,000	(108,015)
2005	69,250	4,382	waterline expansion	14,000	4,000	55,632
2006	180,000	528	none	-	67,000	113,528
Totals	$ 563,669	$ 27,354		$ 573,338	$ 483,094	$ (465,409)

Note: Bond payments that existed when the impact fee was created were considered as expenditures against the impact fees collected. Those impact fees were created to offset those loan payments. Additional loans created after the impact fee originated are not eligible expenditures for the impact fees (only the applicable cash flow from new construction).